A **Coalition** to preserve Wisconsin's Reliable and Affordable Electricity

Customers First!
the Wire

Plugging you in to electric industry changes

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Manipulating mayhem

Restructured energy markets have seen a blizzard of penalties in recent weeks, with federal regulators cracking down on international banking firms and energy marketers they say have been guilty of manipulative or fraudulent trades.

Since mid-October, the Federal Energy Regulatory Commission (FERC) has called for fines against Barclays and Deutsche Bank for alleged manipulation of energy trades. In November, the FERC handed J.P. Morgan Ventures Energy Corp. a six-month revocation of its license to engage in California wholesale electricity trading.

The latter action was unprecedented, but it is emblematic of powers the FERC acquired through federal legislation adopted in the wake of the Enron-led California wholesale power market debacle at the beginning of the last decade. Among other things, the FERC gained authority to fine market manipulators who trifle with system reliability as much as $1 million per day.

A mid-November *Washington Post* story noted that the FERC has built up an enforcement unit numbering some 200 individuals over the past few years. Cases currently being pursued involve activities stretching back to 2006.

Barclays, which maintains its trades have complied with federal law, says it will fight the record $470 million penalty the FERC wants to impose for activities conducted between 2006 and 2008, according to the *Post*.

Earlier this year, the FERC settled a case against Constellation Energy Group for $245 million.

Deutsche Bank's problem is comparatively minor: proposed fines totaling $1.6 million for activities almost three years ago that the firm argues were found improper under legal theories it disputes.

The revocation of Morgan's trading privileges is punishment for furnishing incorrect documents in a FERC investigation.

Morgan says it has apologized and that the actions in question were unintentional.

But the company has other troubles in California, where the independent grid operator alleges that Morgan has been interfering with the proposed upgrades of two power plants judged crucial to maintaining system reliability next summer.

The two plants are owned by AES Corp., which supplies power from other California units for Morgan to resell. The upgrades are intended to help fill the gap left by the shutdown of both units at the San Onofre nuclear plant—but the grid operator, according to the Los Angeles *Times*, says Morgan has pressed AES to resist upgrading the facilities. The grid operator claims a failure to secure the additional capacity would leave southern California vulnerable to reliability problems next year.

The FERC has been reviewing contentions by state officials who say Morgan overcharged utilities by as much as $73 million in late 2011 and early 2012, the *Times* reported.

Power providers on target for RPS

The Public Service Commission this fall made official what everyone expected: All Wisconsin electricity providers are on track for compliance with the state's renewable portfolio standard, and some are ahead of schedule.

Under renewable portfolio standard (RPS) legislation adopted in 2005 and strongly supported by the *Customers First!* Coalition, 10 percent of the electricity sold in Wisconsin must be obtained from renewable energy sources by 2015.

The RPS compliance report approved this fall examined data furnished by the 118 entities providing power in this state. That number breaks down to three aggregators who acquire energy on behalf of 73 municipal utilities and cooperatives, and 45 other providers, for a total of 48. Thirty-six of the 48 achieved renewable sales levels in 2011 that "already appear sufficient" to meet the 2015 requirement, according to the PSC report.

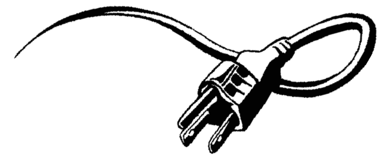
Another four are "very close" to fulfilling the 2015 target, the PSC said, and the remaining eight say they can hit the target with new power-purchase agreements or generation facilities or by buying renewable resource credits from other Wisconsin providers.

More than six million megawatt-hours of renewable energy were generated and available to meet Wisconsin RPS obligations in 2011, the PSC report said.

THE WIRE is a monthly publication of the Customers First! Coalition—a broad-based alliance of local governments, small businesses and farmers, environmental groups, labor and consumer groups, retirees and low-income families, municipal electric utilities, rural electric cooperatives, wholesale suppliers, and an investor-owned utility. Customers First! is a coalition dedicated to preserving Wisconsin's reliable and affordable electricity.

If you have questions or comments about THE WIRE or the Customers First! Coalition, please call 608/286-0784.

KEEPING CURRENT



With CFC Executive Director Matt Bromley

Focus on Energy, the statewide energy-efficiency and renewable-resource program, continues to deliver savings to Wisconsin's energy consumers, according to a new independent evaluation recently released by the Cadmus Group. The findings from this latest review are consistent with previous evaluations of Focus that conclude the programs provide Wisconsin ratepayers with benefits greater than their costs.

Focus on Energy is a roughly $100 million-a-year program funded by customers of investor-owned utilities and participating municipal utilities and electric cooperatives. The utilities contract with a third-party private contractor to administer Focus with oversight by the Public Service Commission. Customers pay on average about $1 per month for electricity and 60¢ for natural gas to fund programs that include financial incentives to Wisconsin residents and businesses to purchase and install energy efficient and renewable energy products and services.

Given that ratepayers fund Focus on Energy, state law requires independent financial audits and program evaluations to ensure it is well-run and cost-effective. Last year, the Legislative Audit Bureau reviewed the evaluation process to assess the program's cost effectiveness. The bureau found the methods used to measure cost effectiveness consistent with national standards and approaches used in other states. In a report to the Joint Legislative Audit Committee, the bureau noted that evaluators estimated benefits resulting from program activities in 2010 exceeded costs by a ratio of 2.3 to 1. Generally, benefits are calculated by figuring out what the cost would be if a utility had to supply the energy that was instead saved by the Focus programs.

Bromley

The latest evaluation by the Cadmus Group found an even greater benefit-cost ratio of 2.46 to 1 from the Focus programs in 2011 despite it being a year of significant changes in program administration, implementation, and design. Administration of Focus on Energy changed hands in 2011 and many new contractors became involved in the day-to-day implementation of the individual business and residential programs.

While reviews of Focus on Energy have historically been pretty good, state regulators are expecting the program to deliver even greater energy savings in the future. In a cover letter accompanying the Cadmus report, Commissioner Ellen Nowak noted that while energy savings for 2011 are running behind the four-year goal established by the commission, any shortfall in savings will need to be made up in the next three years to meet the goals that are part of the program administrator's performance contract. The Cadmus report is available on the Focus on Energy website at http://www.focusonenergy.com/.

Rethinking restructuring?

Last month we noted the disclosure that customers of New York utility National Grid have for the most part lost money by switching power providers. Now New York regulators say they're undertaking a formal assessment of the state's competitive energy markets to determine if they're working as planned.

The state's Public Service Commission was reportedly focusing on residential and small non-residential customers in a study to see if they might be better-served by New York's competitive energy markets.

The rate case reported here last month uncovered data indicating that six of every seven customers of the utility National Grid who switched to take service from a non-utility electricity marketer ended up paying more—to the tune of almost $21 monthly on average, according to a report appearing in *The Buffalo News*.

The same report noted that National Grid gas customers who switched found themselves paying about $11 more monthly.

Some gas customers saved money by switching, but the savings averaged only about $2.50 a month, the *News* reported.

Texas dereg: good news, bad news

Customer complaints against Texas electricity providers have been declining since 2010. That's the good news. The bad news is that there are still five times as many complaints, compared with pre-restructuring years.

The Texas Coalition for Affordable Power (TCAP), made up of cities that operate municipal utilities, releases periodic reports on the status of competitive retail electric markets in the state. The report it released this fall said the Texas Public Utility Commission (PUC) received 8,558 complaints about electricity providers during the 2012 fiscal year.

That's a drop of about 10 percent compared with the prior fiscal year, and it also parallels a decline in energy prices associated with expanding natural gas supplies, the TCAP said.

TCAP Executive Director Dr. Randy Moravec acknowledged the improvement but also said the latest analysis "shows that contract confusion, billing disputes, and other problems remain common."

Retail competition has been allowed in most of Texas since 2002. In the final fiscal year before it took effect, there were fewer than 2,100 complaints filed against electricity providers. A year after it took effect, the number of complaints topped 8,500, according to TCAP.

The organization conceded that population growth and greater Internet usage could explain part of the increase in complaint numbers but pointed out that those factors can't account for an immediate quadrupling of complaints with the onset of retail competition or the fact that the inflated numbers have continued.

Even after the recent two-year decline in complaints, the numbers have remained vastly higher by comparison with years prior to restructuring.

The average number of electricity-related complaints to the PUC prior to restructuring was 1,316. Since restructuring, the annual average has been 11,474, TCAP said.

Gas dereg causes pain in Ohio

Ohio residents who shopped for alternative natural gas providers have paid almost $900 million more than they'd have needed to under the traditional utility model, according to data newly released in state regulatory proceedings.

As in the New York situation noted last month and elsewhere in this edition of *The Wire,* the numbers showing customers lost out by switching providers came to light in a case under review by state regulators.

The Public Utilities Commission of Ohio (PUCO) is expected to decide in 2013 whether to adopt a plan that would leave gas customers with no alternative other than unregulated contracts with energy marketers by 2016.

The change is not automatic. It would occur only if certain conditions are met. Among those is at least 70 percent of Columbia Gas of Ohio customers voluntarily switching to "customer choice" plans. That's almost double the number of Columbia customers now participating in the open market.

Dulling the allure of those market contracts—which are supposed to be saving individual customers money on their gas purchases—is the revelation through pricing data disclosed in the PUCO proceedings and showing that Ohioans who dropped their incumbent gas provider for an alternative supplier paid an aggregate total of $885 million more since 1997 than they would have spent under the traditional regulatory model.

The Columbus *Dispatch* reported in mid-November that the PUCO review has presented pricing data "with a level of detail the public has never seen on this topic."

In the early going, the *Dispatch* reported, customers were able to do well by taking a fixed-rate contract with an alternative supplier and avoiding utilities' variable rates. However, for every month since November 2005, customers have paid more than they would have under a conventional regulatory regime.

Gas marketers have been supporting the proposed move to all-competitive contracts and consumer advocates are opposing it, the *Dispatch* reported.

"Sandy Scam" alerts posted

Some of the ploys are energy-related and some are not, but officials in many states are warning consumers against being taken in by con artists preying on people's compassion for victims of Tropical Storm Sandy.

Here in Wisconsin, the Department of Financial Institutions (DFI) warned last month that scams may include unsolicited offers to invest in electricity generating equipment that would be used to assist people whose utility service has been interrupted.

Other ploys noted by DFI include other investment pools or bonds to help storm victims and appeals from fake charities or individuals soliciting contributions through social media.

Closer to the actual storm damage area, law enforcement and utility providers have been warning of people impersonating electric utility workers in order to gain access to homes for purposes of theft.

Energy saver tip

In the summertime, you probably make a special effort to keep the sun from heating up the inside of your house. Now, with winter upon us, you can use the sun to keep the place warm. Close blinds and drapes during the night but open them on south- and west-facing windows during the daytime. You may be surprised how much free heat you can collect on the coldest—clearest and sunniest—days.

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to preserve
Wisconsin's
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Be sure
to check out the
Customers First!
website at

www.customersfirst.org

Quotable Quotes

"Have you ever met any [energy] traders? Very few of them are scared or intimidated by anything."

—Federal Energy Regulatory Commission Chairman
Jon Wellinghoff to reporters, after saying regulators
plan to aggressively pursue market manipulators,
quoted in *The Washington Post,* November 16, 2012

Help us share our messages with others. If you know of businesses or organizations that would like to learn more about protecting Wisconsin's reliable and affordable electricity, please feel free to copy and share with them all or part of this newsletter, or you can call 608/286-0784 to arrange an informational meeting.

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